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Cash reserves
and bank
note circulation

*Cash Reserves
and
Bank Note Circulation.*



Cash Reserves
AND
Bank Circulation
Accounts.

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BANK OF NOVA SCOTIA.

GENERAL MANAGER'S OFFICE,

Toronto, March 4th, 1903.

HON. W. S. FIELDING,
Minister of Finance,
Ottawa.

Dear Sir :

I beg to enclose a copy of some remarks made on 18th ultimo in addressing the shareholders of this Bank on the subject of Cash Reserves and Incorrect Note Circulation Accounts of Banks, remarks that have not been given to the public. Believing these subjects to be of importance and that appropriate legislation is a necessity of the time, I earnestly commend them to your careful consideration in the hope that you will introduce an amending Act to The Bank Act of such form as will remove the existing objections, some of which have developed since the enactment of The Bank Act of 1900. To place the matter concisely before you, the following relative papers in addition to the address are enclosed in the form of a pamphlet :

Report of Secretary of the Canadian Bankers' Association,	
dated August 26th, 1901, . . .	page 11.
" dated November, 30th, 1901, . . .	" 17.
" not dated	" 20.
Suggested Amendments to Bank Act	" 25.

Since September, 1901, we have striven to obtain equity by urging that every bank be compelled by the Canadian Bankers' Association to adhere to the same limits in the matter of circulation that banks making correct returns are properly restricted to by your department. A request that the figures as ascertained by the Association be published on the Monthly Return of Circulation issued by that body having failed, we demanded the reports of the Secretary on the subject, not as a confidential communication but for such use as the interests of this bank seem to require. Recognizing the desirability of avoiding the arousal of public distrust in bank returns, the grave irregularities shown by the inspection of note accounts have not been publicly used to strengthen our argument for reform, and in this way we are still working.

Within a few years Cash Reserves have dwindled in comparison with the growing obligations of banks. Competition is increasing, and as it increases the keeping of a moderate reserve in cash becomes more difficult in the face of higher earning power of competitors holding insignificant reserves. It is plain that if a bank lends 95% of its funds in competition with one loaning only 85% the shareholders of the former should reap the higher reward, at least temporarily; it is equally plain that the more conservative bank is best serving the people and best performing the functions of a bank. We submit that the present system has caused a steady reduction in Cash Reserves, and that this vicious tendency

is an inherent defect of the present banking law, intensified by the Guaranty Fund provision relating to circulating notes, the amendment of which cannot be postponed without endangering the welfare of the people.

These matters are most respectfully submitted in the hope that you will favor remedial legislation.

I have the honor to be,

Sir,

Your obedient servant,

(Sgd.) H. C. McLEOD,
General Manager.

OTTAWA, March 5th, 1903.

Dear Sir:

I beg to acknowledge receipt of your letter of the 4th instant on the subject of The Bank Act.

Yours faithfully,

(Sgd.) W. S. FIELDING,
Minister of Finance.

H. C. McLEOD, Esq.,
General Manager,
Bank of Nova Scotia,
Toronto.



At the Annual Meeting of the Shareholders of the Bank of Nova Scotia, held in Halifax, February 18th, 1903, Mr. H. C. McLeod, the General Manager, in the course of his address said :

Within the year we have called the attention of legislators and fellow bankers to the inadequate cash reserves held by Canadian banks and the growing tendency to further depletion, the inadequacy having reached a point where in some cases undue risks are being imposed on the country.

Since 1885 cash reserves of all Canadian banks have increased only \$17,000,000, while liabilities to the public have been augmented by \$352,000,000. At the close of that year the percentage was 12.99; it has fallen to 7.55. In addressing fellow bankers in April last I used the words: "As judged by cash reserves the stability of the banks has been lessened in sixteen years by over 43%." At the same time it was remarked that banks of issue of twenty-seven countries, listed by an eminent authority, held specie equal to 45% of deposits and circulation, and that the banks of Australasia, with operations somewhat more extensive than those of Canada, carry in specie 20% of their liabilities. In view of the widely divergent policy of Canadian bankers — the percentage of specie and legal tenders ranging from 14% to 15% — governmental regulation is seemingly essential to safety. Few bankers will argue that the cash now carried by Canadian banks in the aggregate would

be sufficient protection in time of stress. Of course, in ordinary times call loans and investments are available, but when real stringency prevails they are not to be depended on: in fact, no matter how much may be claimed for superior ability of trained bankers, it must be admitted that there is no device for paying liabilities except cash, and that there are times, fortunately rare, when cash cannot be obtained from call loans or from the sale of securities. It is significant that of the banking systems of the United States prior to the civil war, those in which cash reserves were regulated by statute were found to be the safest, and that banks in those States, with a few institutions elsewhere managed on the same principles, were the only survivors of stringency and panic. As early as 1810 the banks of New England were required by statute to carry appropriate cash reserves, returns were called for and examiners appointed. Before 1860 these restrictions had developed for Massachusetts one of the best systems the world has ever seen, a system that stood the test of the panic of 1857. Louisiana passed a banking law in 1842 under which the State became fourth in point of banking capital and second in specie holdings in the whole country. Her banks were paying specie up to the time General Butler marched into New Orleans. During the prosperous times of the early '50's, when there was "overaction in all the departments of business," cash reserves in American banks averaged about 16%, which ordinarily would be con-

sidered sufficient, but contraction in circulation and deposits of later and less prosperous times reduced the average throughout the country to $8\frac{1}{4}\%$ in 1856. From writers on the panic of 1857 and its causes we gather that expenditures for railroads and general expansion of business caused increase of circulation; contraction brought notes in rapidly and found banks unprepared; suspensions and failures, panic and general depression followed. The utmost resources had been employed in good times, and there was no reserve strength.* Experience led to enactments by the States of the Union establishing minimum reserve limits, and similar provisions were incorporated in the national banking law of 1863.

The subject of cash reserves in trust companies is now being agitated in New York, and, according

* President Buchanan in his annual message of 8th December, 1857, said: "In the midst of unsurpassed plenty in all the productions of agriculture and in all the elements of national wealth, we find our manufactures suspended, our public works retarded, our private enterprises of different kinds abandoned, and thousands of useful laborers thrown out of employment and reduced to want. * * * It is apparent that our existing misfortunes have proceeded solely from our extravagance and vicious system of paper currency and bank credits, exciting the people to wild speculation and gambling in stocks. * * * The first duty which these banks owe to the public is to keep in their vaults a sufficient amount of gold and silver. * * * No bank should ever be chartered without such restrictions on its business as to secure this result. * * * And yet I am not aware, with the exception of the banks of Louisiana, that any State bank throughout the Union has been required by its charter to keep this or any other proportion of gold or silver compared with the amount of its combined circulation and deposits. What has been the consequence? * * * It is truly wonderful that they should have so long continued to preserve their credit when a demand for one-seventh of their immediate liabilities would have driven them into insolvency. * * * In the year 1848 the specie was equal to within a small fraction of one dollar in five of their circulation and deposits; in 1857 it is not equal to one dollar in seven and a half." (In Canada in 1885 the proportion to liabilities to the public was one to seven and three-quarters; it is now one to thirteen.)

to the *Evening Post*, an officer of a well known trust company declared that a 15% reserve was essential to safe management, adding that such safeguards should be provided by law, not by the clearing house. The *Post* urged that the sound and conservative institutions, like the banks of similar calibre years ago, should lead in the movement of wise precaution and publicity. Altogether in that country there is not to be found a banker of prominence favoring the abolition of provisions by law for the maintenance of cash reserves.

In England, where much higher reserves are held than in Canada, the subject has been agitated for many years. Walter Bagehot in one of his works, referring to the conditions in England, said: "Since 1857 there has been a great improvement. By painful events men of business have been trained to see that a large bank reserve is necessary."

On the 4th of April following the Baring crisis, the London *Economist* declared cash reserves to be the topic of the day.

Palgrave, writing in the *Encyclopedia Britannica* of last year, says: "In the year 1901 the most important requirement of banking in the United Kingdom was still the establishment of an efficient specie reserve." Of the Bank of England reserve he writes: "Although it is larger than the reserve kept before 1893, which had for several years been completely inadequate, it cannot yet be considered sufficient."

A small minority of bankers have been urging since the summer of 1901 that the statement of notes of Canadian banks in circulation should be corrected and made uniform. With this purpose in view the Bank joined the Canadian Bankers' Association some months ago, and within that body has sought to have the statement of notes in circulation correctly exhibit as outstanding, all notes issued and not actually redeemed. Many banks, "acting on the eminently plausible fiction that a considerable number of notes will never be presented for redemption," have transferred to profits sums of considerable magnitude. It is due to say that most of these transfers were made by managers other than the present incumbents, in some cases the facts having been stated at the time to shareholders; that in several instances new managers reversed the entries as improper as soon as they discovered them; and that I believe there is not now in business any bank with its head office in Halifax, St. John or Charlottetown of which complaint in this particular can be made. The Canadian Bankers' Association's statements issued each month, though in technical compliance with statutory requirements, understate the notes in circulation of several banks, that is if the words, "Notes in Circulation," mean notes issued and not redeemed as they so clearly seem to do. The Secretary of the Association, in referring to a statement prepared by him, says: "The former table affords remarkable evidence of the small percentage of notes of the early issues now

"outstanding. It would seem that the bank note,
 "like every promise to pay, is presented in due sea-
 "son to the maker. The figures showing the fate
 "of the smaller notes once issued by the Canadian
 "chartered banks must, I venture to think, entirely
 "remove the impression somewhat generally held by
 "the public that banks derive much profit from the
 "loss or destruction of their notes." Like evidence
 is furnished by every issuer of circulating notes of
 which we have any knowledge. The Massachusetts
 Bank, after issuing notes for eighty years, ending
 with 1864, had outstanding ten years later only
 \$22,111. The Trenton Banking Company redeemed
 nearly every dollar issued by it. Even the failed
 Banque Ville Marie, that by resolution of its directors
 transferred \$10,000 to profits in June, 1895, had
 presented to it all notes issued excepting \$2,700 as
 early as the time at which its president was being
 prosecuted for this method of building up profits and
 reserve fund. In each case in Canada where notes
 in circulation have been written off time has proven
 the entries and the method to be erroneous. This
 Bank has been issuing notes for seventy years, and
 occasionally is called on to redeem bills that have
 been outstanding for more than half a century.
 Never in its history has there been estimated any
 amount whatever as profit on notes lost while in the
 hands of the public.*

* At the conclusion of his address a Director of the Halifax Banking
 Company present, furnished the information that of all the notes issued by
 that Bank from 1825 to 1872 there were outstanding only \$420.

According to reports made by the banks to the Government (with information furnished to the Association), there are fines due the Government for violation of the Bank Act aggregating a large sum. For the year 1901, one institution clearly made itself liable for a sum not less than \$90,000—probably more than \$2,000,000—and the same may be said of the year 1900 and other years. At least one other bank has made itself liable for fines far in excess of its capital—its offences occurring as late as April last—despite the law and its machinery, including the Canadian Bankers' Association with its information and powers of inspection.

After vainly seeking to have the facts as known to the Association disclosed in the statement issued under its authority and thus avoid confirming figures known to be inaccurate, we determined to retire from the executive council, feeling that to be the only consistent course.

Any Act so imperfect that it has proved and is now holding forth a premium on incorrect statements should be amended. Our efforts favoring these reforms have been confronted by interests and influences so powerful in Canada that facts and arguments are of no avail.

During the closing days of the last session of Parliament a Bill was introduced in the Senate by the Honorable J. V. Ellis which, by consent, was laid over until the coming session, the Bill embodying some necessary reforms, including governmental

inspection, for the protection of shareholders and depositors. We trust that this Bill may yet become law.*

* A copy of the Bill may be seen on page 25 of this pamphlet.

CANADIAN BANKERS' ASSOCIATION.

August 26th, 1901.

E. S. CLOUSTON, ESQ.

*President Canadian Bankers' Association,
Montreal.*

Dear Sir:

In accordance with your instructions, a circular letter was sent to every chartered bank in the Dominion on June 21st, to the following effect:

"To enable the executive council to properly exercise the power conferred upon the Association by the Government, in the supervision of the circulation accounts of all the chartered banks, kindly forward to this office at the earliest possible date a brief history of the circulation of your institution. The said history should contain a tabulated statement of the various issues of notes, their makers and denominations, and all particulars essential to their identification, with the total amount of each issue of notes and the total amount of same destroyed. It is also deemed desirable that the Association should know the names of the engravers from whom you obtain notes, and, when giving this information, please state if your bank or the engraver is the custodian of the plates. I am directed to say that a full report prepared in accordance with this request will be of material assistance to the executive of the Association."

The responses to this request enable me to submit herewith records of the note accounts of the large majority of the banks. With the same, I beg to offer a table showing the fate of the early issues of \$1, \$2 and \$4 notes, also a table giving the issues of notes of larger denominations.

The former table affords remarkable evidence of the small percentage of notes of the early issues now outstanding. It would seem that the bank note, like every promise to pay, is presented in due season to the maker. The figures showing the fate of the small notes once issued by Canadian chartered banks must, I venture to think, entirely remove an impression somewhat generally held by the public that banks derive much profit from the loss or destruction of their notes. That laymen are not alone in hugging this erroneous belief is made apparent by the action of bank managers who, in past years, added this supposititious profit on circulation to earnings made in the ordinary course of business.

As the record of the early issues reveals the danger of calculating upon any profit upon the actual loss of a bank's promissory notes, the folly of counting upon any such profit from the later issues cannot fail to be apparent. In the days when Canadian banks were permitted to circulate notes of the denominations given in this table, a possibility of some loss did exist; as the limited number of branch banks made it necessary for many people to be the custodians of the money in daily use. The cash box

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was kept in the house. To-day, so numerous are banks throughout the Dominion that they are virtually the keepers at the close of each day of the bulk of the money in the country, and the danger of loss by fire or flood is thereby reduced almost to the vanishing point.

To the various systems of keeping accounts of notes issued and destroyed may probably be attributed the marked difference in the reports furnished to the Association. But the records obtained and now submitted to your executive for inspection may suggest the desirability of the adoption by the banks of some uniform method of keeping note accounts, so that the work of inspection imposed upon the Association may be made easy of performance. The importance of having an absolutely accurate account of every bank note issued and destroyed may excuse reference to the somewhat imperfect records exhibited by a few of the banks whose statements accompany this report.

The inability of some of the older institutions to furnish full particulars of their circulation in the earlier years of their existence, makes presentment of the actual amount of paper money issued by the banks of the Dominion somewhat difficult. However, so far as can be gathered from the reports received, about three hundred millions (\$300,000,000) represents the issued promises of the banks to the public, of which amount some fifty-one millions (\$51,000,000) is now in circu.

The eminently plausible fiction that a considerable number of notes will never be presented for redemption is almost swept away by the figures shown in the tabulated statement of the experience of several banks.

Notes of small denomination (\$1s, \$2s and \$4s) to the amount of \$2,530,000, issued by the Merchants Bank of Canada, are reported as paid except \$13,831, and the experience of the Canadian Bank of Commerce seems to be singularly similar, as we note in the report of that institution that of \$2,652,000 only \$13,812 remain to be redeemed. It will be observed that the percentage in these two instances is almost identical.

A modern instance of the inability or unwillingness of the public to lose bank notes is furnished by the Bank of Ottawa issue of \$100,000 in \$10s in 1884. Only 73 of said notes were, at the date of that bank's report to this Association, outstanding. The same bank has redeemed all but \$436 of an issue of \$112,000 of \$4s. Molsons Bank issued \$222,000 in \$6s and \$7s and only \$1,153 are outstanding. The banks of the Maritime Provinces provide equally sound reasons for declining to regard the actual loss of notes as a source of profit. The loss is now known to be small in the extreme, and is becoming "beautifully less" as banking facilities increase.

From 1832 to 1864 the Bank of Nova Scotia issued about \$1,600,000 in notes, and, although much of this money was doubtless carried about on

coasting schooners and kept in country shops and residences, only \$15,109 has not yet been presented for payment at the bank.

The Merchants Bank of Halifax has redeemed \$326,000 of an issue of \$4s amounting to \$328,000, and the figures of other Halifax banks reveal a similar condition of things in connection with the circulation of twenty to thirty years ago.

In connection with the accompanying returns, I desire to call your attention to the following special features of same:

The Bank of Montreal reports \$160,000 transferred to profit and loss account between 1846 and 1872. The Bank of Toronto reports having written off \$20,000 in 1871. The Dominion Bank reports having written off \$15,000 in 1877. The Commercial Bank of Windsor reports regarding its first two issues of Notes: "Accounts closed, as we do not expect balance will ever be presented." The Halifax Banking Company reports that the partners therein, previous to its incorporation, divided \$12,000 as the estimated profit on circulation. The Provincial Bank seems to be unable to furnish satisfactory evidence of the destruction of notes issued by Banque Jacques Cartier. The Dominion Bank appears to have destroyed more \$5 bills than are recorded as issued. This is probably the result of errors in marking register.

It will be observed that the Banque Nationale is unable to account for the issues of notes prior to

1883. In the report submitted to the Association, the manager says: "It is impossible to make a statement of any value," and that "no distinct accounts were formerly kept for the different issues."

A singular instance of the imprudence of transferring outstanding notes to profit and loss account (even during the early period of Canadian banking history) is to be found in the report of the Quebec Bank. This institution appropriated \$24,250 as profit (notes supposed to be destroyed) previous to 1852. Thirty years later (April 25th, 1883) the profit and loss account of the bank had to be debited with \$5,296, being the amount of notes referred to redeemed to that time. The report of said bank contains the following pregnant reference to the entry in question: "Since which date (May 31st, 1852) no profit has been taken."

Although the reports submitted by some of the banks are incomplete, and, in a few cases, unsatisfactory, I have refrained from pressing for further particulars pending instructions from your Executive. The letter received from the Bank of New Brunswick furnishes evidence of the difficulty experienced by the older banks in preparing material for this report.

I have the honor to be,

Your obedient servant,

(Sgd.) JOHN KNIGHT,
Secretary-Treasurer.

CANADIAN BANKERS' ASSOCIATION.

November 30th, 1901.

E. S. CLOUSTON, ESQ.

President.

Dear Sir :

Since making the report submitted to your Executive at Toronto on September 25th last, I have obtained the following information from banks not therein referred to :

The Peoples Bank of New Brunswick report having since 1864 written off \$8,500 from note account, and transferred the amount to profit and loss account. The president of the bank in a letter of October 10th states that being in doubt as to the legality of the bank's action, he desires the advice of the Association. See letter attached hereto.

Upon examination of the books of La Banque Nationale (established 1860) I found the officials were not able to produce the book necessary to prove the accuracy of the note accounts prior to 1870. Since that period, the following amounts have been transferred to profit and loss :

30th April, 1884, . . .	\$30,000
28th November, 1881, .	30,000
3rd March, 1876, . . .	5,811
	<hr/>
	\$65,811

Of this amount \$1,000 has been recently retransferred to note accounts. This bank does not keep a register.

The Union Bank of Canada has an admirable record of its circulation, and the general manager volunteered the information that \$35,000 transferred to profit and loss in 1888 had been retransferred to note accounts in August, 1899. Of this amount \$20,000 belonged to the bank's old issue of 1866, and \$15,000 to the issue of 1886.

At the close of October, the final report of the Ontario Bank was received, and it shows \$85,440 as having been written off the note account:

30th May, 1874, . . .	\$50,000	} Cost of Printing Notes.
24th April, 1892, . . .	25,000	
31st May, 1888, . . .	10,000	
30th May, 1891, . . .	440	
<hr/>		
\$85,440		

The Finance Minister having granted permission, I recently examined the Government system of keeping trace of notes issued and destroyed. The book-keeping of the department does not essentially differ from that of the large majority of banks. The signing of notes, and the work of preparing defaced currency for destruction by the Auditor-General (who takes the place of a bank's board of directors) is entrusted almost exclusively to female clerks. In the course of my questioning Mr. Ross of the department, I ascertained that during the autumn months,

when the Assistant Receivers-General at all points are clamoring for small legals to supply the demand from the banks, it frequently becomes necessary to re-issue large amounts of notes received from the banks as unfit for issue. This accounts for the condition of things alluded to by bank managers at the annual meeting of the Association. The department supplied me with pages from books of record kept by the officials, and the Minister of Finance assured me that any information desired by the banks could always be obtained. At the date of my visit the circulation had reached the highest figure ever known. Of the legal tender notes for use of banks only, there is too large an amount in \$500 and \$1,000 bills. See statement herewith. The complaint of the Montreal Clearing House is fully justified, and the Government should be asked to provide a larger amount in \$5,000 bills and also some \$10,000 bills.

I have the honor to be,

Your obedient servant,

(Sgd.) JOHN KNIGHT.

CANADIAN BANKERS' ASSOCIATION

Inspection of Circulation Accounts.

In accordance with Section 13 (E), an inspection of the circulation accounts of every bank doing business in Canada, whether members of the Association or not, has been made during the year, and as the clause in question requires that the result of these inspections shall be reported to the Council, your Secretary has submitted same to the President. The reports are attached hereto.

At every such inspection, the figures of the bank's returns of note circulation, as rendered to the Association, were compared with the books of the banks at their head offices and the signed returns of the branches of said banks.

The reports submitted herewith contain comments upon the means adopted for the destruction of notes, and upon all special features of the circulation accounts examined by your Secretary.

In my report to the President, dated November 30th last, the following references will be found to La Banque Nationale: "The officials are not able to produce the book necessary to prove the accuracy of the note accounts prior to 1870. Since that period, the following amount has been transferred from circulation to the credit of profit and loss account: \$65,811." The members of the executive council

doubtless observed that the March statement of Circulation, issued by the Association, showed a reversing entry of \$15,000, made by this bank, and the general manager will restore the same amount annually until the full sum written off outstanding notes has been restored.

The Ontario Bank had written off \$75,000 from circulation, and had charged to note accounts \$10,000, being the cost of engraving notes. This latter amount has been restored, and in the September return an adjusting entry of \$25,000 reduced the sum, written off the amount of notes issued by this bank, to \$50,000.

The Dominion Bank, at the time of my inspection, reported its possession of \$100,000 more in unsigned notes than the amount shown in the return sent to the Association, the notes in question being held at the bank pending the settlement of a dispute regarding same with the American Bank Note Co. This bank's circulation accounts were reduced by \$15,000 transferred to profit and loss in 1877.

The cashier of the Western Bank of Canada voluntarily reported that, before sending in the history of the circulation of that bank, he restored to note accounts \$4,000 written off in 1891.

In examining the books of the Provincial Bank, I found the total of bank note accounts in the general ledger to be \$75,000 less than the total stated in the report to the Association. Upon enquiry, I found this apparent discrepancy was owing to the bank's

system of making no entry of unsigned notes in the general ledger. The bank referred to has been requested to change its method of making records of notes received from printers.

The Bank of Toronto reported having written off \$20,000 in 1871, which amount was restored to note accounts last year.

The Bank of Montreal, as stated in the report to the executive council, dated August last, has written off its circulation accounts \$160,000, the said amount representing notes issued prior to 1842.

The books of La Banque de St. Jean, upon being examined, showed the amount of notes on hand to be \$100,000 less than the total stated in its reports to the Association. Upon investigation, I found this to be owing to the system of making no entry in their books of notes received from the engravers. This practice has now been abolished.

The Quebec Bank, as previously reported, in the years previous to 1852, transferred to profit and loss account \$24,250. Thirty years later the same account had to be debited with \$5,296, being the amount of notes redeemed to that time, comprising part of the sum mentioned as appropriated to profits. The balance, \$18,954, has not been restored to note accounts.

The Commercial Bank of Windsor reported regarding its first two issues of notes: "Accounts closed as we do not expect balance will ever be presented." The absorption of this bank by the Union

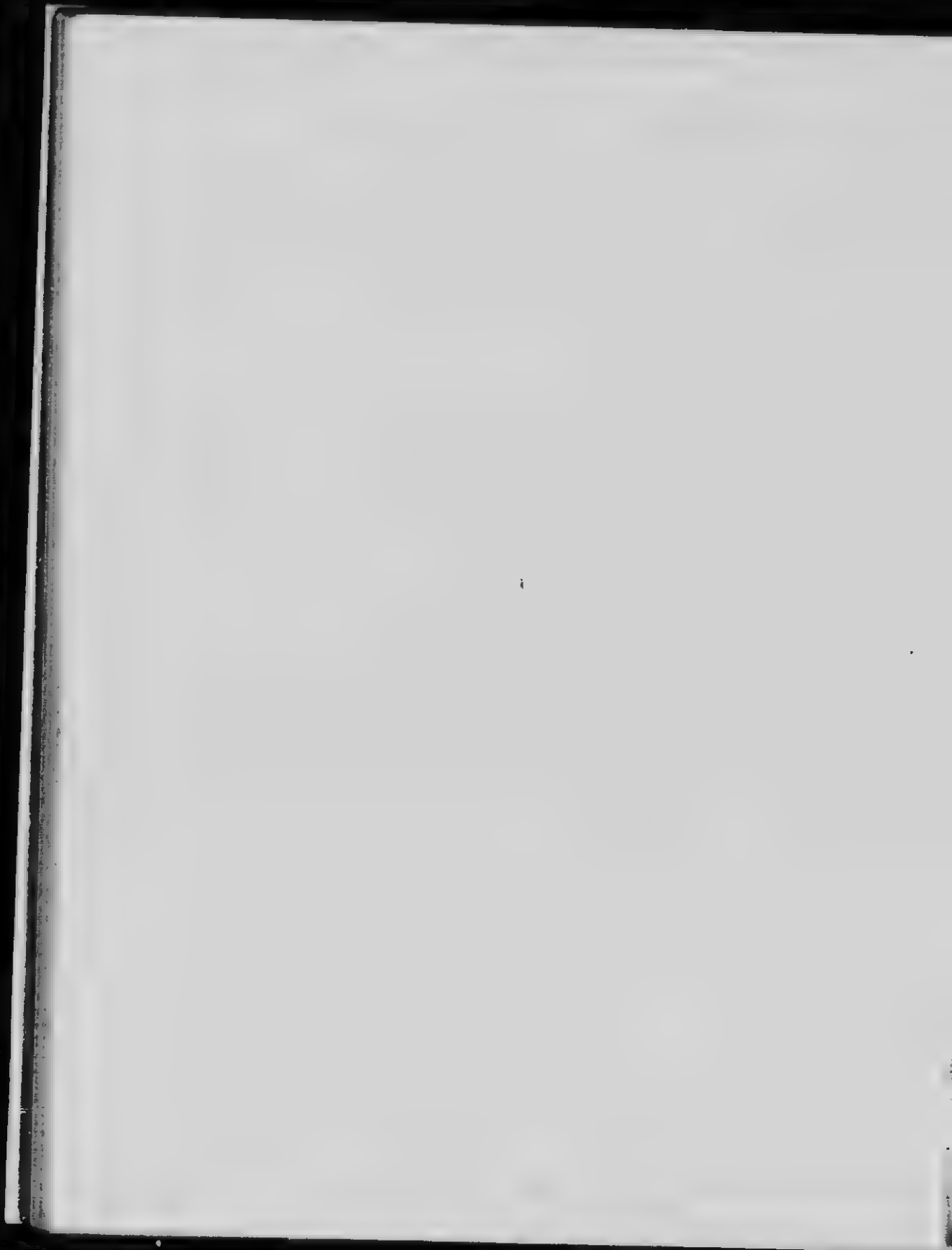
Bank of Halifax has since led to the restoration of the amount written off the bank note accounts of the Commercial Bank of Windsor.

The books of the Exchange Bank of Yarmouth showed a variation of \$20,000 between the figures furnished to the Association and those recorded in the note accounts of the bank. The discrepancy has since been satisfactorily explained, the sum of \$20,000, received from the note engravers, having been placed in the bank's vault and no record made thereof.

A similar discrepancy appeared at the time of inspection in the Peoples Bank of New Brunswick owing to the same cause, but the bank has since opened an account for unsigned notes, and adjusted the difference shown in the report to the president.

The Bank of Yarmouth has also been requested to make record of notes received from engravers, even if the same are not immediately to be signed.

(Sgd.) JOHN KNIGHT,
Secretary.



An Act to Amend The Bank Act.

HIS MAJESTY, BY AND WITH THE ADVICE AND CONSENT OF THE SENATE AND HOUSE OF COMMONS OF CANADA, ENACTS AS FOLLOWS :

SHORT TITLE:

1. This Act may be cited as "The Bank Act Amendment Act, 1902."

2. Section 50 of The Bank Act is amended by prefixing thereto the following sub-section :

"1 (a). The bank shall at all times hold cash
"reserves, consisting of specie and Dominion notes
"to an amount aggregating not less than 10% of its
"liabilities to the public.

"And every bank holding at any time a less cash
"reserve in specie and Dominion notes than is pre-
"scribed by this sub-section shall incur a penalty
"equal to the interest for the period of default on
"the amount of the deficiency at the rate of 6% per
"annum.

"The Minister of Finance and Receiver General
"shall cause to be published monthly a statement of
"such reserves and percentages shewing in the case
"of each bank the excess or deficiency in the amount
"of the reserve so held."

3. Section 51 of The Bank Act is amended by inserting after the first sub-section thereof the following sub-sections to be known as sub-sections 1 (b) and 1 (c):

"1 (b). Notwithstanding anything contained in
 "this Act, the bank may issue notes in excess of the
 "amount of its unimpaired paid-up capital, provided
 "that such excess is covered by a deposit of gold or
 "legal tender notes equal to the amount of such ex-
 "cessive issue made with the Minister of Finance
 "and Receiver General prior to such excessive issue,
 "and the gold or legal tender notes so deposited
 "shall be available by the Minister of Finance and
 "Receiver General for the redemption of notes is-
 "sued in excess as aforesaid in the event of the sus-
 "pension of the said bank.

"Any such deposit or deposits may at any time
 "be added to or may be wholly or partially with-
 "drawn and may again be deposited from time to
 "time as the bank may see fit, provided always that
 "the amount left on deposit shall not be less than
 "the amount of the notes issued by the bank in ex-
 "cess of its unimpaired paid-up capital and then out-
 "standing.

"Such deposit of gold or legal tender notes may
 "be made by the bank at any of the several offices
 "of the Minister of Finance and Receiver General
 "at which Dominion notes are redeemable in the
 "cities of Toronto, Montreal, Halifax, St. John, N.B.,

“Winnipeg, Charlottetown and Victoria, or at any
 “other office established by the Minister of Finance
 “and Receiver General and designated by him for
 “this purpose. And withdrawals shall be made at
 “such place and in such manner as the Minister of
 “Finance and Receiver General shall, upon applica-
 “tion to him, direct.

“1 (c). The yearly average of the deposits of
 “gold or legal tender notes so made, pursuant to the
 “provisions of the preceding sub-section, shall be
 “deducted from the average amount of notes in cir-
 “culation during the same period, and the guarantee
 “fund provided for by Section 54 of The Bank Act
 “shall be a sum of money equal to 5% on such differ-
 “ence in lieu of 5% of the average notes in circula-
 “tion as provided in said Section 54.”

And by inserting after the second sub-section of
 said Section 51 the following sub-sections to be
 known as 2 (b), 2 (c), 2 (d) and 2 (e):

“2 (b). At the close of each year, and within the
 “first fifteen days of the succeeding year, an abstract
 “of each issue of bank notes theretofore made by the
 “bank and then outstanding or partially outstanding,
 “shall be furnished by the bank to the Minister of
 “Finance and Receiver General. Such abstract
 “shall distinguish each issue separately, and in re-
 “gard to each issue shall disclose the following par-
 “ticulars :

"(x) The total number and value of the notes
"printed.

"(y) The number and value of the notes on hand
"at the date of the return.

"(z) The number and value of the notes re-
"deemed and destroyed as shown by the certificates
"of the directors.

"The provisions of Section 85 of The Bank Act
"as to manner of authentication and as to penalties
"for neglect to make up and send in returns, shall
"apply to the return directed by this sub-section.

"2 (c). In the event of any bank failing with re-
"spect to any issue to give or to establish the cor-
"rectness of the particulars prescribed by the pre-
"ceding sub-section, the Minister of Finance and
"Receiver General is empowered and directed to re-
"quire the bank forthwith to call in and cancel such
"issue, and such issue shall thereupon be called in
"and cancelled by the bank.

"2 (d). In case the bank continues to pay out
"notes of such issue after the expiration of ninety
"days from the date of the notice from the Minister
"of Finance and Receiver General, requiring that
"the issue be called in and cancelled, it shall incur
"a penalty of \$100 per day for each day during
"which such default continues.

"2 (e). In case it should appear to the satisfac-
"tion of the Treasury Board, with respect to any

"such issue or issues of notes, that the records of
 "the bank have been kept or the return prescribed
 "by this section made with intent to deceive the
 "Government or the public as to the correct amount
 "of the bank's notes outstanding, computed accord-
 "ing to this Act, the bank shall incur in every such
 "case a penalty of ten thousand dollars, and in addi-
 "tion every director or officer who makes or signs
 "such return shall, thereupon, without any further
 "act, be disqualified from thereafter at any time
 "making or signing either by himself or through
 "others the returns prescribed by The Bank Act.

And by inserting after the third sub-section of said
 Section 51 the following sub-section, to be known as
 sub-section 3 (b):

"3 (b). The value or amount of the notes of the
 "bank in circulation at any time shall be ascertained
 "and determined by deducting from the total value
 "or amount of the notes printed by the bank, the
 "value or amount of such notes on hand, and the
 "value or amount of the notes redeemed by the bank
 "and destroyed, of which destruction evidence shall
 "be furnished to the satisfaction of the Minister of
 "Finance and Receiver General. The difference so
 "ascertained shall, for all the purposes of this Act,
 "be conclusively deemed to be the value or amount
 "of the notes of the bank in circulation."

4. There shall be established as a branch of
 "The Department of Finance" a Bureau of Bank

Inspection, under a comptroller whose duty it shall be to verify the statements or returns required from chartered banks, by inspection of the head office of each bank and of the branches when deemed necessary. He shall be supplied with such assistance as may be requisite, and the expenses of the maintenance of such Bureau shall be borne and paid by the chartered banks, and shall be assessed upon them by the Minister of Finance in proportion to the assets of each.

